

Washington Parish Gas Utility District Number Two

Annual Financial Statements

As of and for the Year Then Ended December 31, 2009
With Supplemental Information Schedules

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

7/21/10

Washington Parish Gas Utility District Number Two

**Annual Financial Statements
As of and for the Year Ended December 31, 2009
With Supplemental Information Schedules**

TABLE OF CONTENTS

	Statement	Schedule	Page
Independent Auditor's Report			4
Management's Discussion and Analysis (Required Supplemental Information):			
Financial Highlights			7
Overview of Annual Financial Report			8
Financial Analysis.....			8
Condensed Balance Sheet.....			9
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			10
Budgetary Highlights.....			11
Other Significant Trends and Account Changes.....			12
Capital Assets			13
Long-Term Debt Activity			14
Future Economic Plans.....			15
Business-Type Financial Statements:			
Comparative Balance Sheet	A		17
Comparative Statement of Revenues, Expenses, and Changes in Net Assets...	B		18
Comparative Statement of Cash Flows	C		19
Notes to the Financial Statements.....			21
Supplementary Information:			
Budgetary Comparison Schedule		1	34
Schedule of Insurance Coverages		2	35
Schedule of Compensation Paid Board of Commissioners.....		3	36
Schedule of Utility System Gas Rates and Number of Customers		4	37
Management's Corrective Action Plan and Summary of Prior Year Audit Findings:			
Summary Schedule of Prior Year Audit Findings		5	38
Corrective Action Plan for Current Year Audit Findings		6	39
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....			40

This Page Intentionally Left Blank

Bruce C. Harrell, CPA

Dale H. Jones, CPA
Eric J. Rodrigue, CPA
Kristi U. Bergeron, CPA

INTERNET
www.teamcpa.com

MEMBERS
American Institute of CPAs
Society of Louisiana CPAs



BRUCE HARRELL
and COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

109 West Minnesota Park
Park Place Suite 7
Hammond, LA 70403
VOICE: (985) 542-6372
FAX: (985) 345-3156

KENTWOOD OFFICE
P.O. Box 45 - 909 Avenue G
Kentwood, LA 70444
VOICE: (985) 229-5955
FAX: (985) 229-5951

Independent Auditor's Report

To the Board of Commissioners
Washington Parish Gas Utility District Number Two
Washington Parish Council
Franklinton, Louisiana

We have audited the accompanying financial statements of the business-type activities of the Washington Parish Gas Utility District Number Two, a component unit of the Washington Parish Council, as of and for the year ended December 31, 2009, which comprise the district's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Washington Parish Gas Utility District Number Two's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Washington Parish Gas Utility District Number Two, as of December 31, 2009, and the respective changes in the financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2010 on our consideration of the Washington Parish Gas Utility District Number Two's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BRUCE HARRELL & CO., CPAs
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

To the Board of Commissioners
Washington Parish Gas Utility District Number Two
Washington Parish Council
Franklinton, Louisiana
Page 2

The management's discussion and analysis and budgetary comparison information in this report, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Washington Parish Gas Utility District Number Two's basic financial statements. The supplemental information in this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

June 21, 2010

Management's Discussion and Analysis

Washington Parish Gas Utility District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

Introduction

The Washington Parish Gas Utility District Number Two (the District) is pleased to present its Annual Financial Statements developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (GASB 34), and related standards.

The District's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position, (d) identify any significant variations from the District's financial plan, and (e) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the District's financial statements in this report.

Financial Highlights

- At December 31, 2009, total assets were \$1,068,791, and exceeded liabilities in the amount of \$436,328 (i.e., net assets). Of the total net assets, \$232,645 was unrestricted and available to support short-term operations, with the balance invested in capital assets, net of related debt.
- Total long term debt decreased from \$535,825 to \$485,127 from the prior to the current year end. All prescribed monthly payments of principal and interest were made in a timely manner during the year ended December 31, 2009.
- For the year ended December 31, 2009, user fee revenues (gas sales) decreased \$169,456 or 23% to \$554,733 as compared to \$724,189 for the fiscal year ending December 31, 2008.
- The District's operating expenses, including depreciation expense, increased by \$56,962 to \$523,503 as compared to \$466,541 for the prior fiscal year. Key components of the increase were salaries and compliance regulation.
- The District received \$85,875 from the Federal Emergency Management Agency and RDA funds of \$156,703 for replacing of pipelines in 2009.

Washington Parish Gas Utility District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

Overview of the Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Washington Parish Gas Utility District Number Two's financial condition and performance.

The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector. Financial statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Statement of Net Assets provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets, accounts for the operation of the District, for the revenues and expenses for the fiscal year, and provides information on how net assets changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. *Supplementary information* includes a comparative budget schedule, key information schedules on operation of the District, and schedules detailing audit findings and management response.

Financial Analysis

The purpose of financial analysis is to help determine whether Washington Parish Gas Utility District Number Two is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets, are presented below in condensed format. These statements report the net assets, the difference between assets and liabilities, and the change in net assets, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

Washington Parish Gas Utility District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2009**

**Condensed Balance Sheet
2009 and 2008**

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and Other Assets	\$ 289,933	\$ 415,828	\$ (125,895)	-30%
Restricted Assets	89,788	115,943	(26,155)	-23%
Capital Assets	689,070	509,465	179,605	35%
Total Assets	<u>1,068,791</u>	<u>1,041,236</u>	<u>27,555</u>	3%
Liabilities:				
Long-Term Debt Outstanding	431,892	486,180	(54,288)	-11%
Other Liabilities	200,571	176,195	24,376	14%
Total Liabilities	<u>632,463</u>	<u>662,375</u>	<u>(29,912)</u>	-5%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	173,943	(26,360)	200,303	760%
Restricted for Capital Activity and Debt Service	29,740	59,195	(29,455)	-50%
Unrestricted	232,645	346,026	(113,381)	-33%
Total Net Assets	<u>\$ 436,328</u>	<u>\$ 378,861</u>	<u>\$ 57,467</u>	15%

The major components of change for "Current and Other Assets" are a \$142,188 decrease in cash, \$21,275 increase in accounts receivable and \$26,155 decrease in restricted assets.

"Capital Assets" increased by \$179,605, reflecting \$6,675 in equipment purchases, \$240,565 in construction and depreciation recorded on capital assets of \$67,635.

The decrease in "Long-Term Debt Outstanding" of \$54,288 is due to payment of principal on existing gas revenue bonds and payments on the capital lease on the Ditch Witch.

Total Net Assets increased \$57,467 for the fiscal year ending December 31, 2009, primarily because of the increase and decreases noted for "Current and Other Assets and Liabilities".

Washington Parish Gas Utility District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2009**

**Condensed Statement of Revenues, Expenses and Changes in Net Assets
2009 and 2008**

	<u>Year ended December 31, 2009</u>	<u>Year ended December 31, 2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Revenues:				
Operating Revenues	\$ 717,816	\$ 762,627	\$ (44,811)	-6%
Nonoperating Revenues	89,793	25,334	64,459	254%
Total Revenues	<u>807,609</u>	<u>787,961</u>	<u>19,648</u>	2%
Expenses:				
Cost of Gas Sold	201,931	227,728	(25,797)	-11%
Depreciation Expense	67,635	68,564	(929)	-1%
Other Operating Expense	455,868	397,977	57,891	15%
Nonoperating Expense	24,708	27,480	(2,772)	-10%
Total Expenses	<u>750,142</u>	<u>721,749</u>	<u>28,393</u>	4%
Changes in Net Assets	57,467	66,212	(8,745)	-13%
Beginning Net Assets	<u>378,861</u>	<u>312,649</u>	<u>66,212</u>	21%
Ending Net Assets	<u>\$ 436,328</u>	<u>\$ 378,861</u>	<u>\$ 57,467</u>	15%

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers to the nature and scope of these changes. The above table gives an indication of how Washington Parish Gas Utility District Number Two is being conservatively managed.

Total "Operating Revenues" (including gas sales and revenues related to providing gas and related services to customers) decreased by \$44,811 or 6 percent. Nonoperating revenues increased by \$64,459 which consisted of FEMA's reimbursement of \$85,875.

Total "Expenses" increased by \$28,393 from prior year expenses. While there were decreases in Cost of Gas sold of \$25,797 and Nonoperating Expenses of \$2,772, the most notable increase was for "Other Operating Expenses" of \$57,891.

Washington Parish Gas Utility District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2009**

Budgetary Highlights

Washington Parish Gas Utility District Number Two adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in a condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Budgetary Comparison Schedule", as supplementary information, following the footnotes to the financial statements.

The proposed budget for 2009 was presented at the November 20, 2008 board meeting, and adopted at the December 18, 2008 meeting. The budget is prepared on the accrual basis of accounting with an additional provision for bond debt service. The board forwarded a copy of the approved budget to the Washington Parish Council. The board reviews the budget to actual comparison on a monthly basis as a part of their management of the system. The 2009 budget was amended at the December 17, 2009 board meeting. The 2010 budget was presented at the November 24, 2009 board meeting and adopted at the December 17, 2009 meeting.

Budget vs. Actual - Fiscal Year ended December 31, 2009

	Budget Year ended December 31, 2009	Actual Year ended December 31, 2009	Favorable (Unfavorable) Variance
Revenues:			
Operating Revenues	\$ 685,800	\$ 717,816	\$ 32,016
Nonoperating Revenues	55,000	89,793	34,793
Total Revenues	<u>740,800</u>	<u>807,609</u>	<u>66,809</u>
Expenses:			
Cost of Gas Sold	190,000	201,931	(11,931)
Depreciation Expense	68,000	67,635	365
Other Operating Expense	456,060	455,868	192
Nonoperating Expense	25,200	24,708	492
Total Expenses	<u>739,260</u>	<u>750,142</u>	<u>(10,882)</u>
Income (Loss)	<u>\$ 1,540</u>	<u>\$ 57,467</u>	<u>\$ 55,927</u>

The District was in compliance with state budget requirements, both revenues and expenses were within five percent of budgeted amounts.

Washington Parish Gas Utility District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

Other Significant Trends and Account Changes

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the Management's Discussion and Analysis.

General Operating Data

Schedule of Number of Customers			
	December 31, 2009	December 31, 2008	Increase (Decrease)
Customers			
Active	711	713	(2)

The above table shows a decrease of 2.

Following is comparison of gas losses for the past five years:

	Gas Purchases (MCF's)	Gas Sales (MCF's)	Gas Loss (MCF's)	% Loss
2005	35560	36141	-581	-1.63%
2006	23205	22824	381	1.64%
2007	24759	19818	4941	19.96%
2008	24856	20992	3864	15.55%
2009	29397	18791	10606	36.08%

The Board has established a procedure to check the daily readings from El Paso's Gas meters. They are able to determine leaks in the District's system due to any large fluctuations in the readings. The District has been replacing old meters, which they felt was a source of gas losses in the past. "Gas purchases" is the net effect of total purchases plus beginning inventory less ending inventory.

The District's high gas loss was due to a problem with the Water District constantly bursting lines while installing water lines in the areas.

Washington Parish Gas Utility District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

One key measure of a gas district's profitability, and the ability to generate positive cash flows, is the ability of the gas system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2009 and 2008.

	Year Ended December 31, 2009	%	Year Ended December 31, 2008	%	Increase (decrease) In Percent
Accounts Receivable					
Current	\$ 76,101	87.0%	\$ 81,541	75.4%	11.6%
31-60 Days Past Due	929	1.1%	2,205	2.0%	-0.9%
61-90 Days Past Due	220	0.3%	483	0.4%	-0.1%
Over 90 Days Past Due	10,227	11.7%	23,884	22.1%	-10.4%
Subtotal	87,477		108,113		
Allowance for Uncollectible Accounts	(10,227)		(25,000)		
Net Accounts Receivable	\$ 77,250		\$ 83,113		

Uncollectible amounts due from customer receivables are recognized as bad debt at the time information becomes available which would indicate the particular receivable is uncollectible. Bad debts are charged off against an allowance for doubtful accounts. After year end a substantial portion of the past due amount over 90 days receivable is expected to be written off against the previously increased allowance for doubtful accounts. Bad debt expense of \$4,181 was recorded for the current fiscal year ended and the allowance for uncollectibles was adjusted to \$10,227 to equal the "Over 90 days Past Due Balance".

Capital Assets

At the end of the fiscal year ending December 31, 2009, Washington Parish Gas Utility District Number Two had \$689,070 (net of accumulated depreciation) recorded in capital assets. This includes gas line systems and improvements, investment in gas meters, storage and other equipment, such as office equipment, and maintenance equipment used to operate the gas system. The changes in capital assets are presented in the table below.

	December 31, 2009	December 31, 2008	Increase (Decrease)	Percentage Change
Capital Assets				
Construction in Progress	240,565	-	240,565	100.00%
Buildings	\$ 15,001	\$ 15,001	-	0.00%
Equipment				
Other Equipment	197,059	190,384	6,675	3.51%
Meters	12,440	12,440	-	0.00%
Utility System	1,512,524	1,512,524	-	0.00%
Subtotal	1,977,589	1,730,349	247,240	14.29%
Less: Accumulated Depreciation	(1,288,519)	(1,220,884)	(67,635)	5.54%
Net Capital Assets	\$ 689,070	\$ 509,465	\$ 179,605	35.25%

Washington Parish Gas Utility District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2009

Purchases of capital assets for the year ended December 31, 2009 were \$6,675 for a trailer bed and construction in process for replacing the pipeline at a cost of \$240,565.

Long-Term Debt Activity

The primary source of long-term financing for Washington Parish Gas Utility District Number Two is a revenue bond financed by the United States Department of Agriculture, Rural Utilities Service (RUS). The bonds were issued on behalf of the District for the purpose of constructing and acquiring improvements, extensions, and replacements to the gas utility system and to retire the previous bond debt of \$376,126. The funds were advanced over a period from June of 1999 to October of 2000, totaling \$758,000. Interest on the debt is charged at a rate of 4.75% per annum payable over twenty years.

Bonds financed for the District do not generally require a specific debt to net income or net cash flow ratio, but bond restrictions do state that the District must set its gas rates at a level necessary to fund debt service requirements and to pay for normal operating expenses of the District. One measure of operating performance of the District is the Debt to Net-Assets ratio. This measure, viewed over time, yields a comparison of how the District has maintained a workable ratio of total debt to net resources of the District.

An increase over an extended period of time would indicate that the District is increasing debt in relation to its operating performance, and in this case the board would analyze other factors, such as overall profitability, to ensure that total debt is increased only in relation to the income that will be earned by financed expansions. Two variations of the Debt to Assets Ratio, Total Debt to Net-Assets and Total Long-term Debt to Net Assets, are presented below. As indicated, the ratios are only a measure of performance and should be reviewed over an extended period of time in combination with other factors that indicated the profitability of the District.

The District entered into a lease purchase agreement with Citicapital Commercial in the amount of \$52,552. This lease is 48 months at a rate of 5.31%. This lease was for ditch witch trencher model number RT55H.

Washington Parish Gas Utility District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2009**

	December 31, 2009	December 31, 2008
Total Long-Term Debt	\$ 485,127	\$ 535,825
Long Term	431,892	486,180
Long Term Debt - Current	39,589	37,755
Revenue Bond - Current	-	-
Capital Lease - Current	13,646	11,890
Total Net Assets	436,328	378,861
Total Long-Term Debt to Net Assets Ratio	1.11	1.41

Future Economic Plans

The Washington Parish Gas Utility District Number Two's management approach is conservative. The Board actively monitors revenues and expenses and evaluates the costs of proposed expansion projects in relation to the revenue the expansion will generate. The District is continuing to replace the old meters, which will reduce the gas loss. The Board reviews accounts receivable on a monthly basis in an effort to reduce delinquent accounts, and continues to search for ways to increase the number of customers they serve. The District received RDA funds to replace pipelines. The District is in the first phase of this project.

Financial Statements

Washington Parish Gas Utility District Number Two
Comparative Balance Sheet
As of December 31, 2009 and 2008

Statement A

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 54,596	\$ 71,793
Investments	-	124,991
Receivables, Net	125,607	104,332
Inventory	70,334	85,054
Prepaid Assets	32,856	22,391
Total Current Assets	<u>283,393</u>	<u>408,561</u>
Restricted Assets:		
Restricted Cash and Cash Equivalents	84,788	100,943
Restricted Investments	5,000	15,000
Total Restricted Assets	<u>89,788</u>	<u>115,943</u>
Property, Plant, and Equipment		
Construction in Progress	240,565	-
Property, Plant and Equipment, Net	448,505	509,465
Total Property, Plant, and Equipment	<u>689,070</u>	<u>509,465</u>
Other Assets		
Bond Issue Costs, Net	6,540	7,267
Total Other Assets	<u>6,540</u>	<u>7,267</u>
Total Assets	<u>1,068,791</u>	<u>1,041,236</u>
Liabilities		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	30,576	65,682
Other Accrued Payables	26,712	4,120
Capital Lease	13,646	11,890
Revenue Bonds Payable	39,589	37,755
Note Payable - Current	30,000	-
Total Current Liabilities (Payable From Current Assets)	<u>140,523</u>	<u>119,447</u>
Current Liabilities (Payable From Restricted Assets):		
Customer Deposits	60,048	56,748
Total Current Liabilities (Payable From Restricted Assets)	<u>60,048</u>	<u>56,748</u>
Long Term Liabilities:		
Bonds Payable	422,226	461,815
Capital Lease	9,666	24,365
Total Long Term Liabilities	<u>431,892</u>	<u>486,180</u>
Total Liabilities	<u>632,463</u>	<u>662,375</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	173,943	(26,360)
Restricted for:		
Capital Projects and Debt Service	29,740	59,195
Unrestricted	232,645	346,026
Total Net Assets	<u>\$ 436,328</u>	<u>\$ 378,861</u>

The accompanying notes are an integral part of this statement

Statement B

Washington Parish Gas Utility District Number Two
Comparative Statement of Revenues, Expenses, and Changes in Net Assets

For the years ended December 31, 2009 and 2008

	2009	2008
Operating Revenues		
Gas Sales	\$ 554,733	\$ 724,189
Less Cost of Gas Sold	(201,931)	(227,728)
Gross Profit on Gas Sales	352,802	496,461
State Grants	156,703	25,000
Other	6,380	13,438
Total Operating Revenues	<u>515,885</u>	<u>534,899</u>
Operating Expenses		
Bad Debts	4,181	-
Compliance Expense	97,016	22,000
Depreciation and Amortization	68,362	69,291
Director's Expense	5,925	6,750
Employee Benefits	36,224	36,299
Insurance	31,282	51,632
Other	24,985	21,621
Professional Fees	16,384	10,030
Repairs and Maintenance	36,105	39,731
Salaries and Wages	135,547	124,657
Severance Taxes	200	5,156
Supplies - Gas Line	39,478	43,286
Supplies - Office	3,659	9,335
Telephone	4,830	4,335
Vehicle Expense	19,325	22,418
Total Operating Expenses	<u>523,503</u>	<u>466,541</u>
Operating Income (Loss)	<u>(7,618)</u>	<u>68,358</u>
Nonoperating Revenues (Expenses)		
Interest Income	3,918	6,259
Interest Expense	(24,708)	(26,958)
Other Income - Federal Emergency Management Agency	85,875	19,075
Other Expense	-	(522)
Total Nonoperating Revenues (Expenses)	<u>65,085</u>	<u>(2,146)</u>
Change in Net Assets	<u>57,467</u>	<u>66,212</u>
Total Net Assets, Beginning	<u>378,861</u>	<u>312,649</u>
Total Net Assets, Ending	<u>\$ 436,328</u>	<u>\$ 378,861</u>

The accompanying notes are an integral part of this statement

Statement C

Washington Parish Gas Utility District Number Two
Comparative Statement of Cash Flows
Proprietary Fund Type
For the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 533,429	\$ 713,378
Received for Meter Deposit Fees	3,300	(215)
Other Receipts	163,083	38,438
Payments for Operations	(493,521)	(457,351)
Payments to Employees	(171,771)	(160,956)
Net Cash Provided by Operating Activities	<u>34,520</u>	<u>133,294</u>
Cash Flows From Noncapital Financing Activities		
Federal Emergency Management Grant Receipts	85,875	71,191
Other - Litigation Claim	-	(522)
Net Cash Provided by Noncapital Financing Activities	<u>85,875</u>	<u>70,669</u>
Cash Flows From Capital and Related Financing Activities		
(Payments for) Capital Acquisitions	(247,240)	(29,475)
Principal Proceeds from (Repayments for) Long Term Debt	(20,698)	(49,338)
Interest Payments for Long Term Debt	(24,747)	(26,996)
Net Cash (Used) by Capital and Related Financing Activities	<u>(292,685)</u>	<u>(105,809)</u>
Cash Flows From Investing Activities		
Receipt of Interest	3,947	6,307
Proceeds from sale (Payments) for Investments	134,991	(117,991)
Net Cash Provided by (Used by) Investing Activities	<u>138,938</u>	<u>(111,684)</u>
Net Cash Increase (Decrease) in Cash and Cash Equivalents	(33,352)	(13,530)
Cash and Cash Equivalents, Beginning of Year	172,736	186,266
Cash and Cash Equivalents, End of Year	<u>\$ 139,384</u>	<u>\$ 172,736</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:		
Cash and Cash Equivalents, Unrestricted	\$ 54,596	\$ 71,793
Cash and Cash Equivalents, Restricted	84,788	100,943
Total Cash and Cash Equivalents	<u>\$ 139,384</u>	<u>\$ 172,736</u>

(Continued)

The accompanying notes are an integral part of this statement

Statement C

Washington Parish Gas Utility District Number Two
Comparative Statement of Cash Flows
Proprietary Fund Type
For the years ended December 31, 2009 and 2008

	<u>12/31/09</u>	<u>12/31/08</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)		
by Operating Activities		
Operating Income (Loss)	\$ (7,618)	\$ 68,358
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided		
by Operating Activities:		
Depreciation and Amortization	68,362	69,291
(Increase) decrease in Accounts Receivable	5,864	(28,871)
(Increase) decrease in Other Operating Receivables	(26,954)	18,003
(Increase) decrease in Unbilled Receivable	(214)	57
(Increase) decrease in Inventory	14,720	4,396
(Increase) decrease in Prepaid Insurance	(10,465)	6,969
Increase (decrease) in Accounts Payable	(35,106)	(5,292)
Increase (decrease) in Accrued Expenses	22,631	598
Increase (decrease) in Customer Deposits	3,300	(215)
Net Cash Provided by Operating Activities	<u>\$ 34,520</u>	<u>\$ 133,294</u>

(Concluded)

The accompanying notes are an integral part of this statement

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

Introduction

Washington Parish Gas Utility District Number Two was created by the Washington Parish Council on July 7, 1972, under provisions authorized by LRS 33:430. The purpose of the District was to build and maintain a natural gas distribution system for the rural area in the western part of Washington Parish. The system serves approximately 711 active customers over distribution lines of 165 miles.

The accounting and reporting policies of the District are the responsibility of a five-member board appointed by the Washington Parish Council. These accounting and reporting policies conform to generally accepted accounting principles as applicable to enterprise funds of a governmental entity. Such accounting and reporting procedures also conform to the guides set forth in the *Louisiana Municipal Audit and Accounting Guide* and to the industry audit guide, *Audits of State and Local Governmental Units*.

1. Summary of Significant Accounting Policies

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

Basis of Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that require capital contributions to the District be presented as a change in net assets.

Reporting Entity

As the governing authority of the parish, for reporting purposes, the Washington Parish Council is the financial reporting entity for Washington Parish.

The financial reporting entity consists of (a) the primary government, parish council, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

Governmental Accounting Standards Board Statement No 14 established criteria for determining which component units should be considered part of the Washington Parish Council for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

- 1) Appointing a voting majority of an organization's governing body, and
 - a) The ability of the parish council to impose its will on that organization and/or
 - b) The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Parish Council.
- 2) Organizations for which the parish council does not appoint a voting majority but are fiscally dependent on the Parish Council.
- 3) Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the parish council appoints the governing board and has the ability to significantly influence operations, the District was determined to be a component unit of the Washington Parish Council, the financial reporting entity.

The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Parish Council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Fund Accounting

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The term measurement focus denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities, available to the District for the purpose of providing goods and services to the public, are included on the balance sheet. The activity statement includes all costs of providing goods and services during the period.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues are susceptible to accrual basis of accounting. The principal operating revenues of the proprietary funds are gas revenue, recurring customer user charges for the services provided by the enterprise fund. Bills are rendered at the beginning of each month for gas used the previous month and primarily collected in the following month. Re-connect and installation fees are recorded in the month service is rendered and collected. Interest income is paid and recorded on a monthly basis. Interest is accrued as earned on treasury notes.

Operating expenses for the enterprise fund include the cost of gas sold and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The District records expenses as they are incurred. Gas and supplies purchased are billed monthly and paid the following month.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Cash and Cash Equivalents and Investments

Cash includes unrestricted amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and investments in bank certificates with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

C. Investments

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost
- There is no involuntary participation in an external investment pool.

D. Inventories

The District purchases their estimated monthly gas allotment based on historical analysis. By agreement with El Paso Energy Co., the District is allowed to store any surplus gas in the El Paso Energy Co. facilities. Inventories of gas are valued at lower of cost or market and are expensed using the first-in first-out method.

Purchases of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

F. Restricted Assets

Customer deposits are included as restricted assets and are offset by corresponding restricted liabilities. Money received for utility deposits paid by new customers is held at various banks in Franklinton, Louisiana. The District holds meter deposits until a customer becomes inactive. The meter deposit is then applied to the accounts receivable balance due and any remainder is refunded to the customer. Current meter deposits are: large commercial \$150, small retail \$120, renters \$150, and homeowners \$100.

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. The revenue bond reserve account and contingency account were established as part of the \$758,000 gas utility revenue bond series 1998 indenture. The bond reserve account is an investment account (bank savings account) where funds are accumulated (\$253 per month) and held in reserve for payment of bonds and interest when the necessary funds would not be available from operating funds. Maximum amount for the reserve account is one year's payments of interest and principal (\$60,672). The contingency account is an investment account where funds are accumulated (\$375 per month) to pay for any emergency repairs or other contingencies that may arise. There is no maximum balance established for this account. Accumulation of these funds commenced upon completion and acceptance of the new distribution line (September 2001).

G. Capital Assets

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 20 Years
Equipment	5 - 10 Years
Meters	20 Years
Utility System	40 Years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

H. Compensated Absences

The District has the following policy related to vacation and sick leave:

All employees of the District earn 10 days of vacation leave each year. Vacation leave must be taken following the year earned. However, upon termination or retirement, employees are paid for any unused vacation leave earned during the current year. All employees earn one half day of sick leave each month during the year. A total of 18 days of sick leave can be accumulated. All accumulated sick leave lapses upon termination. There were no accumulated or vested leave benefits reported by the District in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, as of December 31, 2009.

I. Long-Term Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. Net Assets

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or indebtedness attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset calculation as unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

K. Comparative Data/Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the District, which are either unusual in nature or infrequent in occurrence.

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

At December 31, 2009, the District has cash and cash equivalents (book balances), as follows:

	December 31, 2009	December 31, 2008
Demand Deposits	\$ 9,089	\$ 84,147
Time and Savings Accounts	130,295	88,589
	<u>\$ 139,384</u>	<u>\$ 172,736</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2009, the District has \$144,384 in deposits (collected bank balances), including certificates of deposits included in investments of \$5,000 at four separate banks consisting of \$9,089 in demand deposits and \$130,295 in time and savings accounts. The demand and time and savings deposits were secured from risk by \$250,000 of federal deposit insurance, respectively.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

3. Investments

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name

All investments held by the District fall into category 1 credit risk, defined as "insured or registered, or securities held by the District or its agent in the District's name." In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are carried at fair market value, with the estimated fair market value based on quoted market prices. The only investments held at December 31, 2009 consisted of certificates of deposits held as restricted assets and detailed in footnote 5.

4. Receivables

The following is a summary of receivables at December 31, 2009 and 2008:

	Year Ended December 31, 2009	%	Year Ended December 31, 2008	%	Increase (decrease) In Percent
Accounts Receivable					
Current	\$ 76,101	87%	\$ 81,541	75%	12%
31-60 Days Past Due	929	1%	2,205	2%	-1%
61-90 Days Past Due	220	0.3%	483	0.4%	-0.2%
Over 90 Days Past Due	10,227	12%	23,884	22%	-10%
Subtotal	<u>87,477</u>		<u>108,113</u>		
Allowance for Uncollectible Accounts	<u>(10,227)</u>		<u>(25,000)</u>		
Net Accounts Receivable	<u>77,250</u>		<u>83,113</u>		
Other Receivables					
Unbilled Gas Revenue	47,520		20,566		
Other	837		652		
Total Other Receivables	<u>48,357</u>		<u>21,218</u>		
Total Receivables, Net	<u>\$ 125,607</u>		<u>\$ 104,331</u>		

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. Periodically, the board reviews the aging of receivables and determines the actual amount uncollectible. Per board approval, uncollectible amounts are normally written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectibility.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

Unbilled revenues (accrued billings) consist of gas consumed between the final meter reading date in the last billing cycle of the year and not billed to the customers until the next month in the subsequent fiscal period. At December 31, 2009, accrued billings amounts were \$47,520, and \$20,566 at December 31, 2008.

Uncollectible amounts due from customer receivables are recognized as bad debt at the time information becomes available which would indicate the particular receivable is uncollectible. Bad debts are charged off against an allowance for doubtful accounts. After year end a substantial portion of the past due amount over 90 days receivable is expected to be written off against the previously increased allowance for doubtful accounts. Bad debt expense of \$4,181 was recorded for the current fiscal year ended and the allowance for uncollectibles was adjusted to \$10,227 to equal the "Over 90 days Past Due Balance".

5. Restricted Assets

The following is a summary of restricted assets at December 31, 2009 and 2008:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Restricted Cash and Cash Equivalents		
Customer Deposits	\$ 18,073	\$ 41,748
Bond Reserve Account	28,745	25,891
Bond Contingency Account	37,970	33,304
Restricted Investments		
Customer Deposits - money market accounts and CD's	5,000	15,000
Total Restricted Assets	<u>\$ 89,788</u>	<u>\$ 115,943</u>

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

6. Capital Assets

A summary of changes in capital assets during the fiscal year ending December 31, 2009 is as follows:

	Beginning Balance 12/31/08	Additions and Reclassifications	Deletions and Reclassifications	Ending Balance 12/31/09
Capital Assets				
Buildings	\$ 15,001	\$ -	\$ -	\$ 15,001
Equipment				
Office Equipment	15,419	-	(15,419)	-
Other Equipment	114,816	82,243	-	197,059
Transportation Equipment	60,149	-	(60,149)	-
Meters	12,440	-	-	12,440
Vehicles	-	-	-	-
Construction in process	-	240,565	-	240,565
Utility System	1,512,524	-	-	1,512,524
Total Capital Assets	<u>1,730,349</u>	<u>322,808</u>	<u>(75,568)</u>	<u>1,977,589</u>
Less Accumulated Depreciation for:				
Buildings	(7,697)	(1,334)	-	(9,031)
Equipment				
Other Equipment	(85,943)	(18,089)	-	(104,032)
Meters	(12,209)	(193)	-	(12,402)
Vehicles	-	-	-	-
Utility System	(1,115,035)	(48,019)	-	(1,163,054)
Total Accumulated Depreciation	<u>(1,220,884)</u>	<u>(67,635)</u>	<u>-</u>	<u>(1,288,519)</u>
Total Capital Assets, Net	<u>\$ 509,465</u>	<u>\$ 255,174</u>	<u>\$ (75,568)</u>	<u>\$ 689,070</u>

Depreciation totaling \$67,635 is computed on a straight line basis for financial statement purposes.

7. Long-Term Obligations – United States Department of Agriculture Rural Development Bonds

The following is a summary of long-term obligation transactions for the year ended December 31, 2009:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Long-Term Debt					
Gas Utility Revenue Bond Series 1998	\$ 499,570	\$ -	\$ (37,755)	\$ 461,815	\$ 39,589
Capital Lease - Ditchwitch	36,255	-	(12,943)	23,312	13,646
Total Long-Term Debt	<u>\$ 535,825</u>	<u>\$ -</u>	<u>\$ (50,698)</u>	<u>\$ 485,127</u>	<u>\$ 53,235</u>

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

Short-term debt consisted on the balance due of \$53,235 on long-term debt noted in the above schedule and a short-term note payable of \$30,000. The note payable of \$30,000 was used to pay construction costs pending receipt of grant funds, and the note payable was paid in full subsequent to fiscal year end.

The current balance of \$461,815 (original issue of \$758,000 of par value Gas Utility Revenue Bonds series 1998 dated June 1, 1999) is for bonds issued on behalf of the District for the purpose of constructing and acquiring improvements, extensions, and replacements to their gas utility system and to retire the old bond debt (\$376,126). The funds were advanced over a period from June 1999-October 2000, and totaled \$758,000. The bond debt consists of one bond payable to the USDA Rural Development. Payments of \$5,056 commenced July 2000, and include interest at the rate of 4.75 percent per annum payable over twenty years. In addition to the monthly payment of the bonded debt, the District is to make monthly payments to a reserve fund (\$253), and a contingency fund (\$375), commencing upon date of completion and acceptance of the extension project. At December 31, 2009, the reserve fund and the contingency fund were fully funded.

The annual requirements to amortize all bonds outstanding as of December 31, 2009, are as follows:

Year Ending	1998 Gas Revenue Bonds		
	Principal	Interest	Total
2010	\$ 39,588	\$ 21,082	\$ 60,670
2011	41,510	19,160	60,670
2012	43,525	17,145	60,670
2013	45,638	15,032	60,670
2014 to 2018	291,554	40,060	331,614
	<u>\$ 461,815</u>	<u>\$ 112,479</u>	<u>\$ 574,294</u>

Balances and activity for the Reserve Fund and Depreciation and Contingency Fund for the fiscal year ending December 31, 2009 are as follows:

	Beginning Balance	Contributions	Interest	Ending Balance
Rerserve Fund	\$ 25,891	\$ 2,783	\$ 71	\$ 28,745
Contingency Fund	\$ 33,304	\$ 4,125	\$ 541	\$ 37,970

8. Restricted and Designated Net Assets

At December 31, 2009, Washington Parish Gas Utility District Number Two recorded \$29,740 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants, contracts with customers for meter deposits, and the unspent portion of capital debt related to amounts restricted for capital projects less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

9. Budget

The proposed budget for 2009 was presented at the November 20, 2008 board meeting, and adopted at the December 18, 2008 board meeting. The budget is prepared on the accrual basis of accounting, with additional provision made for bond debt service. The board forwarded a copy of the approved budget to the Washington Parish Council. The board reviews the budget to actual comparison on a monthly basis

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

as a part of their management of the system. The 2009 budget was amended at the December 17, 2009 board meeting. The 2010 budget was presented at the November 24, 2009 board meeting and adopted at the December 17, 2009 meeting.

10. Pension Plan

The District adopted a "Simple IRA" retirement plan on April 4, 2005. The prototype plan provides for participating (employee election-\$5,000 earnings in any previous two years) employees to defer through payroll withholding up to \$11,500 per year. The District agreed to match employee withholdings, up to three percent of each participating employees' wages. Contributions are made each month following the month withholdings are collected. Total pension fund expense was \$3,247 for the fiscal year ending December 31, 2009.

11. Litigation and Claims

As of December 31, 2009, the District was not involved in any litigation or claims.

12. Leases

The District entered into a lease purchase agreement with Citicapital Commercial Corporation to acquire a ditch witch trencher RT55H from J&B Underground LLC from Baton Rouge, Louisiana in 2007. The lease is for 48 months at an interest rate of 5.31 percent. The lease obligation is for \$52,552 with a monthly payment of \$1,217.

The annual requirements for future capital lease payments as of December 31, 2009, are as follows:

Year Ending	2007 Capital Lease		
	Principal	Interest	Total
2010	\$ 13,646	\$ 964	\$ 14,610
2011	9,666	238	9,904
	<u>\$ 23,312</u>	<u>\$ 1,202</u>	<u>\$ 24,514</u>

13. On-Behalf Payments

The Washington Parish Council pays certain operating expenditures of the District. The District's office is located in a building leased by the Council. The Council pays the rent and utilities on the building (office space approximately 80 square feet). These expenditures are not reflected in the accompanying financial statements.

14. Intergovernmental Agreement

The District and the Parish Council signed an intergovernmental cooperative agreement concerning the use of Parish Council property for an equipment yard and space for the storage shed. The term of this agreement was for the period June 1, 2002 through May 31, 2003. The term is extended on a month-to-month basis after May 31, 2003, with either party having the right to cancel the agreement by giving 60 days written notice to the other party. The District constructed a fence around the property and placed a portable storage building on the property. The District has the right to remove any improvements made to the property within 30 days after the effective date of cancellation.

Washington Parish Gas Utility District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2009

15. Federal Emergency Management Assistance

As discussed earlier, the District received \$85,875 in funds from the Federal Emergency Management Agency. The District has hired Louisiana Natural Gas Service, LLC (LNGS) to facilitate the filing and completion of their claims related to the hurricane with the Federal Emergency Management Agency and the Governor's Office of Homeland Security and Emergency Preparedness, which is now administering the distribution of the federal funds related to the claims.

16. Related Party Transaction

There were no related party transactions noted other than those previously described in the on-behalf payments and intergovernmental agreement footnotes for the year ended December 31, 2009.

17. Grant from Delta Regional Authority

The District received a grant from DRA for the purpose of replacing approximately 75 miles of pipelines. The total funds approved were \$407,447, which included a 75%/25% share of cost. The District received \$156,703 in fiscal year 2009.

Supplemental Information

Schedule 1

Washington Parish Gas Utility District Number Two
Budgetary Comparison Schedule
For the year ended December 31, 2009

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues				
Gas Sales	\$ 700,000	\$ 530,000	\$ 554,733	\$ 24,733
Less Cost of Gas Sold	<u>(220,000)</u>	<u>(190,000)</u>	<u>(201,931)</u>	<u>(11,931)</u>
Gross Profit on Gas Sales	480,000	340,000	352,802	12,802
State Grants	-	150,000	156,703	6,703
Other	<u>6,000</u>	<u>5,800</u>	<u>6,380</u>	<u>580</u>
Total Operating Revenues	<u>486,000</u>	<u>495,800</u>	<u>515,885</u>	<u>20,085</u>
Operating Expenses				
Bad Debts	1,000	1,000	4,181	(3,181)
Compliance Expense	30,000	90,000	97,016	(7,016)
Depreciation and Amortization	60,000	68,000	68,362	(362)
Director's Expense	6,300	6,525	5,925	600
Employee Benefits	40,200	35,800	36,224	(424)
Insurance	53,000	35,000	31,282	3,718
Leak Survey	-	9,630	-	9,630
Other	12,660	14,205	24,985	(10,780)
Professional Fees	15,100	19,700	16,384	3,316
Repairs and Maintenance	35,000	37,000	36,105	895
Salaries and Wages	131,840	134,000	135,547	(1,547)
Severance Taxes	4,300	4,600	200	4,400
Supplies - Gas Line	38,000	34,600	39,478	(4,878)
Supplies - Office	14,000	11,000	3,659	7,341
Telephone	5,000	5,000	4,830	170
Vehicle Expense	<u>18,000</u>	<u>18,000</u>	<u>19,325</u>	<u>(1,325)</u>
Total Operating Expenses	<u>464,400</u>	<u>524,060</u>	<u>523,503</u>	<u>557</u>
Operating Income (Loss)	<u>21,600</u>	<u>(28,260)</u>	<u>(7,618)</u>	<u>20,642</u>
Nonoperating Revenues (Expenses)				
Interest Income	5,000	5,000	3,918	(1,082)
Interest Expense	(26,600)	(25,200)	(24,708)	492
Other Income - Federal Emergency Management Agency	-	50,000	85,875	35,875
Total Nonoperating Revenues (Expenses)	<u>(21,600)</u>	<u>29,800</u>	<u>65,085</u>	<u>35,285</u>
Change in Net Assets	-	1,540	57,467	55,927
Total Net Assets, Beginning	378,861	378,861	378,861	-
Prior Period Adjustments	-	-	-	-
Total Net Assets, Ending	<u>\$ 378,861</u>	<u>\$ 380,401</u>	<u>\$ 436,328</u>	<u>\$ 55,927</u>

See independent auditor's report.

Washington Parish Gas Utility District Number Two
Schedule of Insurance
For the year ended December 31, 2009

Insurance Company / Policy Number	Coverage	Amount	Period
Nautilus Ins. BK00501300	General Liability: General Aggregate Personal & Advertising Injury Each Occurrence Damage to Premises Products / Completed Operations / Aggregate	\$ 2,000,000 1,000,000 1,000,000 50,000 2,000,000	6/1/2009 to 6/1/2010
Progressive Auto Insurance 2230425	Auto Insurance Bodily Injury / Property Damage Combined Single Limit (CSL) Uninsured / Underinsured (CSL) Hired Autos Liability (CSL) Employer Nonowned Auto (CSL) Comprehensive & Collision Medical Payments	500,000 100,000 500,000 500,000 5,000 per person	7/23/2009 to 7/23/2010
Louisiana Workers Compensation Corporation (LWCC) 76619-A	Workers Compensation	At Statutory Limitations	9/12/2009 to 9/12/2010
CNA Surety Company - Bond 68863996	Scheduled Coverages for Board Members and Employees Board Member Board Member Board Member Employee Employee	500,000 500,000 500,000 500,000 500,000	6/7/2009 to 6/7/2010
Travelers Insurance 105179083	Public Officials & Employees Liability	1,000,000	9/21/2009 to 9/21/2010
American First Insurance IM 8107292	Contractors Equipment 2005 Volvo ECR38 Excavator 2007 Ditch Witch Trencher	40,000 52,500	1/1/2009 to 1/14/2010

See Independent Auditor's Report.

Schedule 3

**Washington Parish Gas Utility District Number Two
Schedule of Compensation Paid to Board Members
For the year ended December 31, 2009**

The Board of Commissioners of the District consists of five members appointed by the Washington Parish Government. The following schedule of compensation paid to board members is presented in compliance with House Concurrent Resolution Number 54 of the 1979 Session of the Louisiana Legislature. Compensation did not exceed provisions of R.S.33:4305.B.[1].

<u>Name and Title / Contact Number</u>	<u>Address</u>	<u>Compensation Received</u>	<u>Term Expiration</u>
Earl Forrest, Chairman (985) 877-5065	28755 Webb Road Mount Hermon, LA 70450	\$ 1,800	Resigned May 2010
John Stevens, Vice-Chairman (985) 839-2133	40299 Highway 16 Franklinton, LA 70438	1,800	12/31/13
George McKenzie (985) 848-2476	56151 B.B. McKenzie Road Franklinton, LA 70438	1,200	12/31/12
Olander Smith (985) 839-2313	31253 Highway 438 Franklinton, LA 70438	300	12/31/11
Dennis Warren (985) 839-6360	47168 Jenkins Road Franklinton, LA 70438	825	12/31/10
		<u>\$ 5,925</u>	

Re-appointments are made each January for the member whose term expires.

See independent auditor's report.

Schedule 4

Washington Parish Gas Utility District Number Two
Schedule of Gas Rates
For the year ended December 31, 2009

Residential, Commercial, and Industrial Rates

Each month the rates are adjusted based on the rates paid to the Louisiana Municipal Gas Authority (LMGA), the gas distributor. As of December 2009, the charge rate was \$2.40 per 100 cubic feet. All commercial customers receive a minimum charge of \$9.00.

As of December 31, 2009 and 2008, the district had the following number of customers:

Schedule of Number of Customers			
	December	December	Increase
	31, 2009	31, 2008	(Decrease)
Customers			
Active	711	713	(2)

See independent auditor's report.

**Washington Parish Gas Utility District Number Two
Summary Schedule of Prior Year Audit Findings
As of and for the year ended December 31, 2009**

Schedule 5

Compliance

No compliance findings.

Internal Control

No internal control findings.

Management Findings:

Finding Number: 2007-M1 (First occurring in fiscal year ended December 31, 2007)

Description of Finding: The original finding noted problems that occurred with the update of billing software in year 2007, and the need to write-off accounts in the over 90 days past due category. For fiscal year 2008, we noted that testing of 25% of the population of 629 accounts included in the over 90 days past due category revealed that the majority of customers in this sample had not had payments applied to their account since before 2007.

During the fiscal year ended December 31, 2009, the District increased its review of the over 90 days past due category, recording a bad debt expense of \$4,181 writing off accounts as they became uncollectible, and reduced the uncollectible estimate to \$10,227, which is the balance in the over 90 days category.

Whereas, the District must continue its efforts to disconnect unpaid accounts on a timely basis, and must continue to refer past due accounts for collection, the District has taken affirmative action to correct the problem.

Corrective Action Taken: Final

**Washington Parish Gas Utility District Number Two
Corrective Action Plan for Current Year Findings
As of and for the year ended December 31, 2009**

Schedule 6

Compliance Findings

No compliance findings.

Internal Control

Finding Number: 2009-I1

Type Finding: Significant Deficiency not Material to the Financial Statements

Criteria: The Washington Parish Gas Utility District Number Two must demonstrate that activities related to financial management are segregated sufficiently to ensure that financial statements are reasonably reported and stated.

Condition: Because of the size of the District, there will be limited segregation of duties. The District must adopt policies and procedures to ensure that financial transactions are properly authorized and reported. The District has responded by implementing the following controls:

- 1) A daily reconciliation procedure has been adopted that recaps and reconciles receipts received and recorded in the utility billing system.
- 2) A monthly reconciliation procedure has been adopted that recaps daily transactions and reconciles to the utility billing accounts receivable balance. Both the daily and monthly reconciliation are submitted to an outside certified public accountant for final review and reconciliation.
- 3) All adjustments to the utility billing system, including debit and credit adjustments, and write-offs, require board approval.
- 4) All checks require signature by board members.
- 5) Monthly budget-to-actual financial reports are presented to the board by the outside certified public accountant.

Effect: Because of the size of the entity there will be a continuing finding related to limited segregation of duties. The District must continue to monitor the authorization, recording, and reporting of financial transactions.

Response by Management: We will continue to monitor financial activities and closely monitor the operation of the District.

Anticipated Completion Date: We will continue to closely monitor operations of the District.

Management Findings

No management findings.

Contact Person:

John Stevens, Chairman
40299 Highway 16
Franklinton, LA 70438
(985) 839-2133

Bruce C. Harrell, CPA

Dale H. Jones, CPA
Eric J. Rodrigue, CPA
Kristi U. Bergeron, CPA

INTERNET
www.teamcpa.com

MEMBERS
American Institute of CPAs
Society of Louisiana CPAs



BRUCE HARRELL
and COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

109 West Minnesota Park
Park Place Suite 7
Hammond, LA 70403
VOICE: (985) 542-6372
FAX: (985) 345-3156

KENTWOOD OFFICE
P.O. Box 45 - 909 Avenue G
Kentwood, LA 70444
VOICE: (985) 229-5955
FAX: (985) 229-5951

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Washington Parish Gas Utility District Number Two
Washington Parish Council
Franklinton, Louisiana

We have audited the accompanying financial statements of the business-type activities of the Washington Parish Gas Utility District Number Two, a component unit of the Washington Parish Council, as of and for the year ended December 31, 2009, and have issued our report thereon June 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington Parish Gas Utility District Number Two's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the Washington Parish Gas Utility District Number Two's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Washington Parish Gas Utility District Number Two's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described as Finding Number 2009-11 within the *Corrective Action Plan for Current Year Findings*, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less

BRUCE HARRELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
Professional Accounting Corporation

To the Board of Commissioners
Washington Parish Gas Utility District Number Two
Washington Parish Council
Franklinton, Louisiana
Page 2

severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance

As part of obtaining reasonable assurance about whether the Washington Parish Gas Utility District Number Two's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the Washington Parish Gas Utility District Number Two, the Louisiana Legislative Auditor, and the United States Department of Agriculture Rural Utilities Service, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and is distributed by the Legislative Auditor as a public document in accordance with Louisiana Revised Statutes 24:513.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

June 21, 2010